

| | | | |
|---------------------------------|--------------------------------------------------------|-------------------------------|---------------------------------------------------|
| <i>SERFF Tracking Number:</i> | <i>AGNY-125199354</i> | <i>State:</i> | <i>Arkansas</i> |
| <i>Filing Company:</i> | <i>New Hampshire Insurance Company</i> | <i>State Tracking Number:</i> | <i>AR-PC-07-025961</i> |
| <i>Company Tracking Number:</i> | <i>AIC-07-IM-01</i> | | |
| <i>TOI:</i> | <i>09.0 Inland Marine</i> | <i>Sub-TOI:</i> | <i>09.0000 Inland Marine Sub-TOI Combinations</i> |
| <i>Product Name:</i> | <i>Clarion Musical Instrument Program</i> | | |
| <i>Project Name/Number:</i> | <i>Clarion Musical Instrument Program/AIC-07-IM-01</i> | | |

Filing at a Glance

Company: New Hampshire Insurance Company

Product Name: Clarion Musical Instrument Program SERFF Tr Num: AGNY-125199354 State: Arkansas

Program

TOI: 09.0 Inland Marine SERFF Status: Closed State Tr Num: AR-PC-07-025961

Sub-TOI: 09.0000 Inland Marine Sub-TOI Combinations Co Tr Num: AIC-07-IM-01 State Status:

Filing Type: Rate Co Status: Reviewer(s): Betty Montesi,
Llyweyia Rawlins, Brittany Yielding

Authors: Zack Ray, Janine Graham, Disposition Date: 09/04/2007

Monique Myers

Date Submitted: 08/30/2007 Disposition Status: Exempt from Review

Effective Date Requested (New): 10/10/2007 Effective Date (New): 10/10/2007

Effective Date Requested (Renewal): 10/10/2007 Effective Date (Renewal): 10/10/2007

General Information

Project Name: Clarion Musical Instrument Program

Project Number: AIC-07-IM-01

Reference Organization: N/A

Reference Title: N/A

Filing Status Changed: 09/04/2007

State Status Changed: 08/30/2007

Corresponding Filing Tracking Number: AGNY-125199353

Filing Description:

New Hampshire Insurance Company submits for your review and approval it's Clarion Musical Instrument Program (the "Program"). The Program provides property coverage on musical instruments for professional musicians and musical instrument dealers nationwide.

Status of Filing in Domicile: Pending

Domicile Status Comments: Pending

Reference Number: N/A

Advisory Org. Circular: N/A

Deemer Date:

Please refer to the attached actuarial materials for information about the rates included in this submission.

SERFF Tracking Number: AGNY-125199354 State: Arkansas
Filing Company: New Hampshire Insurance Company State Tracking Number: AR-PC-07-025961
Company Tracking Number: AIC-07-IM-01
TOI: 09.0 Inland Marine Sub-TOI: 09.0000 Inland Marine Sub-TOI Combinations
Product Name: Clarion Musical Instrument Program
Project Name/Number: Clarion Musical Instrument Program/AIC-07-IM-01

As required, the forms for this Program are being submitted separately.

Company and Contact

Filing Contact Information

Monique Myers, Filings Analyst Monique.Myers@AIG.com
175 Water Street (212) 458-6346 [Phone]
New York, NY 10038 (212) 458-7077[FAX]

Filing Company Information

New Hampshire Insurance Company CoCode: 23841 State of Domicile: Pennsylvania
70 Pine Street Group Code: Company Type:
New York, NY 10270 Group Name: State ID Number:
(212) 770-7000 ext. [Phone] FEIN Number: 02-0172170

Filing Fees

Fee Required? Yes
Fee Amount: \$100.00
Retaliatory? No
Fee Explanation: \$100 Per Rate Filing.

This check includes a fee for the corresponding Form Filing.
Per Company: No

| CHECK NUMBER | CHECK AMOUNT | CHECK DATE |
|--------------|--------------|------------|
| 00101987 | \$150.00 | 08/07/2007 |

| | | | |
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Correspondence Summary

Dispositions

| Status | Created By | Created On | Date Submitted |
|--------------------|-------------------|-------------------|-----------------------|
| Exempt from Review | Llyweyia Rawlins | 09/04/2007 | 09/04/2007 |

| | | | |
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| <i>Project Name/Number:</i> | <i>Clarion Musical Instrument Program/AIC-07-IM-01</i> | | |

Disposition

Disposition Date: 09/04/2007

Effective Date (New): 10/10/2007

Effective Date (Renewal): 10/10/2007

Status: Exempt from Review

Comment: Per Arkansas Code 23-67-206: Property and casualty insurance for commercial risk, excluding workers' compensation, employers' liability, and professional liability insurance are exempted from rate and rule filing and review.

(see actual code site for details)

Contingent on receiving filing fee.

| Company Name: | Overall % Rate Impact: | Written Premium Change for this Program: | # of Policy Holders Affected for this Program: | Premium: | Maximum % Change (where required): | Minimum % Change (where required): | Overall % Indicated Change: |
|---------------------------------|-------------------------------|-------------------------------------------------|-------------------------------------------------------|-----------------|-------------------------------------------|-------------------------------------------|------------------------------------|
| New Hampshire Insurance Company | 0.000% | \$0 | 0 | \$0 | 0.000% | 0.000% | 0.000% |

| | | | |
|---------------------------------|--------------------------------------------------------|-------------------------------|---------------------------------------------------|
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| <i>Project Name/Number:</i> | <i>Clarion Musical Instrument Program/AIC-07-IM-01</i> | | |

| Item Type | Item Name | Item Status | Public Access |
|----------------------------|------------------------|----------------------------------------|----------------------|
| Supporting Document | Explanatory Memorandum | Accepted for Informational Purposes | Yes |
| Rate | Clarion Rate Page | Accepted for Informational Purposes | Yes |

| | | | |
|--------------------------|-------------------------------------------------|------------------------|--------------------------------------------|
| SERFF Tracking Number: | AGNY-125199354 | State: | Arkansas |
| Filing Company: | New Hampshire Insurance Company | State Tracking Number: | AR-PC-07-025961 |
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| TOI: | 09.0 Inland Marine | Sub-TOI: | 09.0000 Inland Marine Sub-TOI Combinations |
| Product Name: | Clarion Musical Instrument Program | | |
| Project Name/Number: | Clarion Musical Instrument Program/AIC-07-IM-01 | | |

Rate Information

Rate data applies to filing.

Filing Method:

Rate Change Type:

Neutral

Overall Percentage of Last Rate Revision:

0.000%

Effective Date of Last Rate Revision:

Filing Method of Last Filing:

Company Rate Information

| Company Name: | Overall % Indicated Change: | Overall % Rate Impact: | Written Premium Change for this Program: | # of Policy Holders Affected for this Program: | Premium: | Maximum % Change (where required): | Minimum % Change (where required): |
|------------------------------------|-----------------------------------|---------------------------|------------------------------------------------------|---------------------------------------------------------|----------|------------------------------------------|------------------------------------------|
| New Hampshire Insurance Company | 0.000% | 0.000% | \$0 | 0 | \$0 | 0.000% | 0.000% |

| | | | |
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Rate/Rule Schedule

| Review Status: | Exhibit Name: | Rule # or Page #: | Rate Action | Previous State Filing Attachments Number: |
|-------------------------------------|----------------------|--------------------------|--------------------|--------------------------------------------------|
| Accepted for Informational Purposes | Clarion Rate Page | 1 | New | Rate Page NHIC.pdf |

**New Hampshire Insurance Company
Clarion Musical Instrument Program**

1. Base Rate
Range from 0.25-2.50
Premium is equal to selected rate multiplied by the TIV per \$100

2. Experience Credit
The experience credit is equal to:

| | | |
|-----------------------------------------------|---|--------------------|
| <u>Maximum Loss Ratio - Actual Loss Ratio</u> | X | Credibility Factor |
| Maximum Loss Ratio | | |

 *Maximum loss ratio is 50%
 *Credibility factor is 25%

3. Size Credit

| | |
|------------------------------------|---------------|
| <u>TIV</u> | <u>Credit</u> |
| less than 1,000,000 | 0% |
| greater than or equal to 1,000,000 | 10% |

4. Location Factors

| | |
|------------------------------------|---------------------|
| <u>Population</u> | <u>Credit/Debit</u> |
| less than 500,000 | 5% |
| 500,000-1,000,000 | 0% |
| greater than or equal to 1,000,000 | -5% |

5. Territorial Charge - Risks located outside of the United States only
Rate will be multiplied by a factor of 1.25

6. Individual Risk Premium Modification Plan
This plan shall apply to policies that develop a total annual premium of \$500 or more before the application of this plan.
The above modifications shall be applied to recognize such special characteristics of the risk that are not already reflected.
The total credits or debits under the above table shall not exceed 25%.

| | |
|-----------------------------------------------------------------------------|---------------------|
| | <u>Credit/Debit</u> |
| Personal Management | +/- 8% |
| -Cooperation in matter of safeguarding and handling of the property covered | |
| Location | +/- 7% |
| -Accessibility and environment | |
| Instrument | +/- 5% |
| -Care, condition and type | |
| Protection | +/- 10% |
| -Alarm, vault, doorman | |

7. Deductible Factors

| | |
|---------------|---------------|
| <u>Amount</u> | <u>Credit</u> |
| \$0 | 0% |
| \$100 | 2% |
| \$250 | 3% |
| \$500 | 5% |
| \$1,000 | 10% |
| \$2,500 | 15% |
| \$5,000 | 20% |
| \$10,000 | 25% |

8. Minimum Policy Premium
 -\$160 for association members
 -\$250 for individual musicians
 -\$500 for all other classes

| | | | |
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| <i>Project Name/Number:</i> | <i>Clarion Musical Instrument Program/AIC-07-IM-01</i> | | |

Supporting Document Schedules

| | | | | |
|----------------------------|------------------------|-----------------------|----------------------------|------------|
| Satisfied -Name: | Explanatory Memorandum | Review Status: | Accepted for Informational | 09/04/2007 |
| | | | Purposes | |
| Comments: | | | | |
| Attachment: | | | | |
| Explanatory Memorandum.pdf | | | | |

American Home/National Union/New Hampshire Group

Clarion Musical Instrument Program

Explanatory Memorandum

This program provides coverage for musical instruments, related equipment and accessories and the property of the insured or others in the insured's care, custody and control against the risks of direct physical loss, except those causes of loss specifically excluded. Eligible insureds would be professional musicians, musical instrument dealers and symphony orchestras. Rates and pricing for musical instruments vary widely from risk to risk and region to region, therefore it is difficult to develop a class rate that would adequately represent the expected loss and expenses of an individual insured. For this reason, a range of rates for each class has been proposed along with local conditions and/or specific risk characteristics applicable for adjustment of rates.

EXHIBIT 1: CALCULATION OF INDICATED RATE LEVEL CHANGE

The range of rates have been developed using underwriting judgement, as there is no experience from which rates could be developed. A review of similar products indicate the overall premiums of the proposed plan are in line with those of several competitors. A rating example has been provided using sample insureds in different classes for each company. As can be seen, the overall proposed premiums are in line with ISO and a competitor.

EXHIBIT 2: EXPENSE PROVISIONS AND DETERMINATION OF EXPECTED LOSS RATIO

Expense provisions are based on the expenses found for Inland Marine in the company's Insurance Expense Exhibit. The commission expense is program specific. The expected loss & lae ratio is the complement of the total expenses and profit load. The profit and contingencies factor has been offset for investment income and is based on a target rate of return of 15%.

EXHIBIT 3: INVESTMENT INCOME EXHIBITS

The investment income exhibits are based on American Home/ National Union/ New Hampshire Group's Annual Statement experience and incorporate Inland Marine premium, loss and expense provisions to determine an indicated investment income offset. The calendar year return on equity method was used.

**American Home/National Union/New Hampshire Group
Clarion Musical Instrument Program**

Exhibit 1

Rating Example

| | | | American Home/National Union | | | ISO | | | Royal Insurance Company of America | | |
|--------------------------------|---------------------|-----------|------------------------------|------|---------|------------|-------------|---------|------------------------------------|------|---------|
| | | | Proposed | | | | | | | | |
| Sample Insured | Class | TIV | Deductible | Rate | Premium | Deductible | Rate | Premium | Deductible | Rate | Premium |
| 1 | Symphony/Orchestra | 3,514,942 | 0 | 0.35 | 12,302 | 500 | 0.444 | 15,606 | 0 | 0.45 | 15,817 |
| 2 | Symphony/Orchestra | 2,361,946 | 0 | 0.53 | 12,518 | 500 | 0.444 | 10,487 | 0 | 0.45 | 10,629 |
| 3 | Symphony/Orchestra | 1,962,950 | 100 | 0.54 | 10,600 | 500 | 0.427 | 8,382 | 0 | 0.45 | 8,833 |
| 4 | Opera Symphony | 7,544,796 | 0 | 0.45 | 33,952 | 500 | 0.444 | 33,499 | 0 | 0.45 | 33,952 |
| 5 | Individual Musician | 898,575 | 0 | 0.40 | 3,594 | 500 | 1.228/0.36 | 3,248 | 0 | 0.25 | 2,246 |
| 6 | Individual Musician | 4,139,150 | 0 | 0.26 | 10,762 | 500 | 1.274/0.374 | 15,494 | 0 | 0.25 | 10,348 |
| 7 | Individual Musician | 565,750 | 0 | 0.28 | 1,584 | 500 | 1.274/0.374 | 2,129 | 0 | 0.25 | 1,414 |
| 8 | Individual Musician | 1,839,525 | 0 | 0.20 | 3,679 | 500 | 1.274/0.374 | 6,893 | 0 | 0.25 | 4,599 |
| 9 | Individual Musician | 262,000 | 0 | 0.47 | 1,231 | 500 | 1.274/0.374 | 993 | 0 | 0.25 | 655 |
| 10 | Dealer | 4,600,000 | 500 | 0.60 | 27,600 | 500 | 0.715 | 32,890 | no rate filed | | |
| Total Premium of Insureds 1 -9 | | | | | 90,223 | 96,732 | | | 88,493 | | |
| Total Premium of Insureds 1-10 | | | | | 117,823 | 129,622 | | | n/a | | |

**American Home/National Union/New Hampshire Group
Clarion Musical Instrument Program**

Exhibit 2

Derivation of Expected Loss Ratio

| | | |
|--------------------------------------------------------|---------------------------|--------|
| (1) Target rate of return on equity | | 15.0% |
| (2) Premium to Surplus Ratio | | 129.0% |
| (3) Target rate of return on premium [(1)/(2)] | | 11.6% |
| (4) Rate of return on premium | | 5.2% |
| (5) Target underwriting profit (loss) [(3)-(4)/.65] | | 9.9% |
| (6) Selected profit and contingency factor | | 5.0% |
| (7) Total Expenses | | 34.6% |
| | a. Commissions | 25.00% |
| | b. Other Acquisition | 5.39% |
| | c. General Expenses | 1.95% |
| | d. Taxes, Licenses & Fees | 2.25% |
| (8) Expected Loss Ratio [1-(7)-(6)] | | 60.4% |

ESTIMATED INVESTMENT EARNINGS ON UNEARNED
PREMIUM RESERVES AND ON LOSS RESERVES

Inland Marine

A. UNEARNED PREMIUM RESERVE

| | | |
|----|-----------------------------------------------------------------------|-----------|
| 1. | Inland Marine Direct Earned Premium for Calendar Year 2005 | \$859,239 |
| 2. | Mean Unearned Premium Reserve [0.295* (1)] (See Notes p. 2) | 253,854 |
| 3. | Deduction for Prepaid Expenses (See notes p. 2) | |
| | a) Commission and Brokerage | 25.00% |
| | b) Taxes, Licenses and Fees | 2.25% |
| | c) 50% of Other Acquisition Expenses | 2.69% |
| | d) 50% of General Expenses | 0.98% |
| | e) Total | 30.92% |
| 4. | Deduction for Federal Taxes Payable (See Notes p. 2) | 7.0% |
| 5. | Net Amount Subject to Investment Income [(2) x (1.000 - (3) - (4))] | 157,605 |

B. DELAYED REMISSION OF PREMIUMS (Agents' Balances)

| | | |
|----|---------------------------------------------|---------|
| 1. | Direct Earned Premium [(A.1)] | 859,239 |
| 2. | Average Agents' Balance (See Notes pp. 2-3) | 0.129 |
| 3. | Delayed Remission [(1) x (2)] | 110,572 |

C. LOSS RESERVE:

| | | |
|----|-------------------------------------------------------------|----------------------|
| 1. | Direct Earned Premium [(A.1)] | 859,239 |
| 2. | Expected Incurred Loss and L.A.E. Reserves | @ ELR: 0.604 519,122 |
| 3. | Expected Mean Loss Reserves [0.966 x (2)] (See Notes p. 3) | 501,722 |

D. SURPLUS

| | | |
|----|----------------------------------------------------|---------|
| 1. | Direct Written Premium | 840,423 |
| 2. | Surplus Subject to Investment [(D.1)/prem to surp] | 589,771 |

E. NET AMOUNT SUBJECT TO INVESTMENT: [(A.5) - (B.3) + (C.3) + (D.2)]

1,138,526

F. AVERAGE RATE OF RETURN ON INVESTED ASSETS (See Notes p. 4)

4.87%

G. INVESTMENT EARNINGS ON NET SUBJECT TO INVESTMENT [(E) x (F)]

55,496

H. AVERAGE RATE OF RETURN (As % of Direct Earned Premium) [(G) / (A.1)]

6.46%

I. AVERAGE RATE OF RETURN (After Federal Income Taxes) [(H) x 0.830]

5.36%

ESTIMATED INVESTMENT EARNINGS ON UNEARNED
PREMIUM RESERVES AND ON LOSS RESERVES
(Explanatory Notes)

Inland Marine

Line A.1

Inland Marine direct earned premium for calendar year 2005 as provided by American Home/National Union/ New Hampshire Group.

Line A.2

The mean direct unearned premium reserve is determined by multiplying the Inland Marine direct earned premium in line (A.1) by the countrywide ratio of the mean direct unearned premium reserve to the direct earned premium for 2005. See below for calculation of this ratio. This ratio is based on data for Inland Marine from page 15 of the Annual Statement for American Home/National Union/ New Hampshire Group

| | (In 000's) |
|---------------------------------------------------------|------------|
| 1. Direct Earned Premium for Calendar Year 2005 | \$ 859,239 |
| 3. Direct Unearned Premium Reserve as of 12/31/04 | 263,321 |
| 3. Direct Unearned Premium Reserve as of 12/31/05 | 244,387 |
| 4. Mean Direct Unearned Premium Reserve 1/2 [(2) + (3)] | 253,854 |
| 5. Ratio [(4) / (1)] | 0.295 |

Line A.3

Deduction for prepaid expenses:

Production costs and a large part of the other company expenses in connection with the writing and handling of the filed insurance coverage exclusive of claim adjustment expenses, are incurred when the policy is written and before the premium is paid. Therefore, the deduction for these expenses is determined by use of the provisions for expenses used in our ratemaking procedure as shown.

Line A.4

Deduction for Federal Taxes Payable:

| | |
|---------------------------------------------------------------------------|-------|
| Taxable percentage of unearned premium reserves (Tax Reform Act of 1986): | 20.0% |
| Corporate Tax Rate: | 35.0% |
| Total Percentage of Unearned Premium Reserve: | 7.0% |

Line B.2

Delayed remission of premium:

This deduction is necessary because of delay in collection and remission of premiums beyond the effective dates of the policies. Funds for the unearned premium reserve required during the initial days of all policies must be taken from the company's surplus. (continued)

ESTIMATED INVESTMENT EARNINGS ON UNEARNED
PREMIUM RESERVES AND ON LOSS RESERVES
(Explanatory Notes)

Inland Marine

Line B.2 (continued)

Agents' balances or uncollected premiums for premiums due less than 90 days are calculated as follows:

| | (In 000's) |
|---------------------------------------------------|---------------|
| 1. Net Earned Premium for Calendar Year 2005 | \$ 19,438,121 |
| 2. Net Agents' Balances as of 12/31/04 | 1,946,004 |
| 3. Net Agents' Balances as of 12/31/05 | 2,422,685 |
| 4. Mean Agents' Balances $1/2 \times [(2) + (3)]$ | 2,184,345 |
| 5. Ratio $[(4) / (1)]$ | 0.112 |

The above percentage must be multiplied by a factor of 1.145 to include the effect of agents' balances or uncollected premiums overdue for more than 90 days. The factor 1.145 is based on 2005 company data.

Final adjusted Agents' Balance:

0.1287

Line C.2

The expected loss and loss adjustment ratio reflects the expense provisions used in the filing.

Line C.3

The expected mean loss reserve is determined by multiplying the expected incurred losses in line (C.2) by the average countrywide ratio of the mean loss and loss adjustment reserves to the incurred losses and loss adjustment expenses in 2004 and 2005 for Inland Marine Insurance. This ratio is based on Annual Statement Data.

| | (In 000's) |
|----------------------------------------------------------------------------------|------------|
| 1. Incurred Losses and L.A.E. for Calendar Year 2004 | 288,985 |
| 2. Incurred Losses and L.A.E. for Calendar Year 2005 | 1,919,465 |
| 3. Loss Reserves and L.A.E. as of 12/31/03 | 417,139 |
| 4. Loss Reserves and L.A.E. as of 12/31/04 | 447,037 |
| 5. Loss Reserves and L.A.E. as of 12/31/05 | 1,332,132 |
| 6. Mean Loss Reserve 2004: $1/2 [(3) + (4)]$ | 432,088 |
| 7. Mean Loss Reserve 2005: $1/2 [(4) + (5)]$ | 889,585 |
| 8. Ratio $(6) / (1)$ | 1.495 |
| 9. Ratio $(7) / (2)$ | 0.463 |
| 10. Average Ratio $1/2 [(8) + (9)]$ | 0.979 |
| 11. Loss reserve for American Home/National Union/ New Hampshire Group, selected | 0.980 |
| 12. Estimated Reserve Discount | 3.9% |
| 13. Federal Taxes Payable (% of Reserves): $(12) \times .35$ | 0.014 |
| 14. $(11) \times [1.0 - (13)]$ | 0.966 |

ESTIMATED INVESTMENT EARNINGS ON UNEARNED
PREMIUM RESERVES AND ON LOSS RESERVES
(Explanatory Notes)

Inland Marine

Line E

The rate of return is the ratio of net investment income earned and net realized capital gains (or losses) to mean cash and invested assets (including interest, dividends, and real estate income due and accrued).

| <u>Year</u> | Net Investment Income Earned (In 000's) | Mean Cash and Invested Assets (In 000's) | Rate of <u>Return</u> |
|-------------|-----------------------------------------------|------------------------------------------------|--------------------------|
| 2004 | 1,675,232 | 40,092,801 | 4.18% |
| 2005 | 1,958,547 | 48,226,323 | 4.06% |
| Total | 3,633,779 | 88,319,125 | 4.12% |

| <u>Year</u> | Realized Capital Gains (or Losses) (In 000's) | Mean Cash and Invested Assets (In 000's) | Rate of <u>Return</u> |
|-------------|-----------------------------------------------------|------------------------------------------------|--------------------------|
| 1996-2005 | 2,319,348 | 307,348,351 | 0.75% |

Total Rate of Return:

Net Investment Income Earned and Net Realized Capital Gains (or Losses)

4.87%

Line H

The average rate of Federal Income Tax was determined by applying the appropriate tax rates to the distribution of investment income earned for 2005 for the American Home/National Union/ New Hampshire Group.

| | Rate <u>of Return</u> | Federal Income <u>Tax Rate</u> |
|----------------------------------------|--------------------------|--------------------------------------|
| Net Investment Income Earned | 4.12% | 0.137 |
| Net Realized Capital Gains (or Losses) | 0.75% | 0.350 |
| Total | 4.87% | 0.170 |

1.000 - Federal Income Tax Rate

0.830

ESTIMATED INVESTMENT EARNINGS ON UNEARNED
PREMIUM RESERVES AND ON LOSS RESERVES
(Explanatory Notes)

Inland Marine

Line H (continued)

| | Investment Income Earned | Federal Income Tax Rate |
|---------------------------------------|-----------------------------|-------------------------------|
| <u>Bonds</u> | | |
| Taxable | \$ 213,405 | 0.350 |
| <u>Non-Taxable</u> | <u>979,460</u> | <u>0.026</u> |
| Total | \$ 1,192,866 | (A) 0.084 |
| <u>Stocks</u> | | |
| Taxable | \$ 133,417 | 0.123 |
| <u>Non-Taxable</u> | <u>199,164</u> | <u>---</u> |
| Total | \$ 332,581 | (B) 0.049 |
| <u>Mortgage Loans and Real Estate</u> | | |
| Mortgage Loans | \$ 0 | |
| Real Estate | 0 | |
| Collateral Loans | 0 | |
| Cash on Deposit | 0 | |
| Short Term Investments | 8,701 | |
| <u>All Other</u> | <u>665,356</u> | |
| Sub-Total | \$ 674,057 | 0.350 |
| Total | \$ 2,199,504 | 0.160 |
| Investment Deductions | \$ 240,957 | 0.350 |
| Net Investment Income Earned | \$ 1,958,547 | 0.137 |

(A) Assume 50% of the income on tax-exempt bonds is subject to proration; that is, 15% of that income is taxed at the full corporate income tax rate of 35%. The applicable tax rate is thus 2.6%. $((.50 \times .15 \times .35) = .026)$

(B) 30% of dividend income is subject to the full corporate income tax rate of 35%. Assume 50% of the dividend income on stocks is subject to proration; that is, 15% of the remaining 70% of dividend income is taxed at a rate of 35%. The applicable tax rate is thus 12% $((.30 \times .35) + (.50 \times .70 \times .15 \times .35) = .123)$.